THE A.I.D. ECONOMIC POLICY REFORM PROGRAM IN UGANDA

A.I.D. PROGRAM IMPACT EVALUATION REPORT NO. 79
(Document Order No. PN-AAX-252)

by

Joan Atherton, Anthropologist, Team Leader
U.S. Agency for International Development

Edward Costello, Economist
U.S. Agency for International Development

Thomas J. Herlehy, Agricultural Marketing Specialist
U.S. Department of Agriculture

Joseph Lieberson, Economist
Topic Coordinator, Economic Policy Reform Evaluation Series
U.S. Agency for International Development

November 1991

TABLE OF CONTENTS

FOREWORD

The Agency for International Development's Center for Development Information and Evaluation (CDIE) has lauched a series of policy reform impact evaluations to learn more about the effectiveness and developmental impacts of A.I.D.'s policy reform programs. Six country studies have been completed in Central America and the Caribbean (Costa Rica, Jamaica, Honduras, the Dominican Republic, Dominica, and Grenada) and six in Africa (Cameroon, Mali, The Gambia, Senegal, Malawi, and Uganda). The six evaluations in the African region were undertaken jointly by the Africa Bureau and CDIE, in order to assess the progress of policy reform programs and to draw lessons for improving their performance. While recognizing it was too early to truly assess longer term developmental impacts, nevertheless it was felt that the importance of these programs merited an early, intensive review of performance in achieving interim results.

In Uganda, A.I.D.'s economic policy reform program supported policies designed to encourage private sector exports of nontraditional agricultural crops. Uganda needed to increase its nontraditional exports because, coffee, its traditional export, accounted for over 95 percent of the country's export earnings. With world demand for coffee growing slowly and prices depressed, Uganda needed new sources of export earnings.

Uganda moved to adjust the exchange rate and to end the export monopoly held by government parastatals. The A.I.D.-supported reforms focused on several key problems that were restraining nontraditional exports: combersome trade rules and regulations; restrictive air cargo export procedures and inadequate facilities; lack of imports needed by exporters; and inadequate measures to give nontraditional exporters higher effective foreign exchange earnings.

The results during the first 2 years of the reform program were remarkable -- nontraditional export earnings increased five-fold and the government steadily moved the exchange rate to a more realistic level. The private sector grew stronger as business confidence increased and state-owned enterprises lost their monopoly control. In addition, A.I.D.-funded technical assistance helped to improve the Government's trade policy capacity.

Annette Binnendijk
Acting Director
Office of Evaluation
Center for Development Information and Evaluation
Agency for International Development
December 1991

SUMMARY

Introduction

The Uganda Agricultural Nontraditional Export Promotion Program (ANEPP) was a $14 million policy reform effort supported by the U.S. Agency for International Development (A.I.D.). The program supported a set of policies that provided incentives to the private sector for expanding noncoffee exports in order to diversify Uganda's foreign exchange earnings away from an almost complete dependence on coffee. Two objectives drove the reform program: support of the Government of Uganda's macroeconomic policies of stabilization and restructuring, particularly as they related to market-oriented foreign exchange rates, and development of specific trade-related policies to encourage growth of nontraditional export earnings.

At the time of the evaluation in August 1990, the ANEPP had been in operation for almost 2 years. It was composed of a Commodity Import Program (CIP), a companion technical assistance project, and a complementary Public Law (PL) 480 program. The CIP primarily financed private sector imports of agricultural inputs, raw materials for manufacturing farm implements, and packing and bagging materials for exporting nontraditional commodities. The technical assistance supported the Export Policy Analysis and Development Unit (EPADU) of the Ministry of Planning and Economic Development, which had principal responsibility within the Government for trade policy formulation. The PL 480 self-help measures addressed bottlenecks in air cargo

transport of commodities.

The Government of Uganda's Policy Measures and A.I.D. Assistance

In 1987, with the support of the IMF and the World Bank, the Museveni Government initiated a sizable stabilization and structural adjustment program to reverse Uganda's serious economic decline and to set the country back on a sustained course of development. Many of the reforms involved changes in the trade and tax regimes affecting production incentives for exports and import-competing industries. Briefly, the broader Government measures included the following:

- Exchange rate adjustment. The Uganda shilling was gradually devalued, with the goal of eventually merging the official rate with the parallel, or kibanda, market rate. In July 1990, the Government moved all exports, except coffee, to the kibanda rate and legitimized the operation of forex bureaus (private foreign exchange traders).

- Parastatal reform. Between 1988 and mid-1990, the Government simultaneously moved to put state-owned enterprises on a competitive footing for all export commodities, except coffee and cotton.

- No-forex (foreign exchange) imports. The Government lifted restrictions on the use of privately held foreign exchange for imports, paving the way for the return of flight capital.

The broader structural adjustment reforms provided the context for the ANEPP efforts, described below, which focused on promoting nontraditional exports over the long term and encouraging the role of the private sector in this endeavor.

- Simultaneous export/import licensing. A.I.D.-Government of Uganda agreement required simultaneous export/import licenses to be issued to exporters of nontraditional commodities to allow them to import goods equal to the value of their exports. This interim measure would enable exporters to import scarce goods to sell at market prices reflecting the parallel foreign exchange rate, thus offsetting any disadvantage they might suffer by exporting at the official exchange rate.

- Foreign exchange retention account. To balance the shortcomings of the export/import licensing scheme a year after ANEPP's inception, the Government enacted a new measure giving exporters a choice of holding the foreign exchange or using it to import goods. The A.I.D. program implicitly supported this innovation.

- Trade regulations and procedures. A.I.D. terms called for streamlining the procedures and reducing the costs for obtaining export and import licenses.

- Fresh commodity export promotion. To promote higher value perishable agricultural exports, A.I.D.-Government of Uganda agreement under PL 480 required the reduction of costs and the streamlining of procedures for use of air cargo, including upgrading air cargo facilities.

The Impacts

Because the ANEPP supported a broad structural adjustment reform program that involved other actors, it was not possible to measure the precise impact of every measure. Many of the reforms were interrelated and mutually reinforcing, often one measure paving the way for the follow-on reform. Nonetheless, the evaluation team found that the program was well on its way to achieving its specific objectives.

During the 2 year period assessed by the evaluation, the value and volume of nontraditional exports rose by a factor of at least five. The dual-licensing scheme originally instituted under the program, and the subsequent foreign exchange retention accounts, paved the way for the ultimate recognition of the parallel foreign exchange market.

The greater volume of exports flowed mainly from increases in production and marketing of staple agricultural commodities, which required relatively simple marketing and transport arrangements and a knowledge and technology base that was already available. In contrast, increases in exports of fresh fruits and vegetables were not as dramatic because the special production, infrastructure, and marketing requirements remained inadequately developed in Uganda.

The ANEPP support of EPADU helped increase the Government's capacity in trade policy formulation during the period under review. EPADU gained credibility as the major adviser to both the Government of Uganda and A.I.D. on trade matters involving nontraditional export. In fact, the evaluation team found more generally that the Government of Uganda's capacity for both policy formulation and dialogue with donors was exceptionally high. A major concern, however, remained implementation of policy decisions.

The key factors that appeared to have affected program performance, in addition to continued macroeconomic reforms, can be grouped into two categories: economic policy and physical and institutional infrastructure. During the period covered by this evaluation, the role of the private sector became more prominent, influenced, at least in part, by the weakened monopoly control of the key state-owned enterprises and a concomitant increase in business confidence. The concurrent rehabilitation of the major roads in Uganda was another major factor of importance for the growth of nontraditional exports.

Lessons Learned

Although the ANEPP was only about 2 years into the program, the evaluation was able to identify some key lessons learned, among them the following:

- In Uganda, well-conceived policies, not the type of assistance, were critical to the success of the program.

- Improvements in infrastructure were essential to the increase of exports.

- a supportive marketing system and business environment were important for building business confidence.

- an active policy dialogue was critical for reinforcing government commitment and effecting better donor coordination, both essential to the program's success.

- the indigenous capacity for policy reform analysis was important for the success of the policy reform program.

- an appropriate tactical approach, for example, demonstrating immediate benefits and concentrating on limited, manageable policy changes, built confidence in the program; however the baseline data-collection and monitoring, which is critical to measuring actual program achievement and demonstrating immediate benefits was inadequately developed.

On the other hand,

- the CIP imports, while initially helpful in stimulating the moribund nontraditional export sector, became a source of cheap foreign exchange for importers.

- although some Mission administration of A.I.D. resource allocation may have been wise at the inception of the program, detailed A.I.D. involvement may have resulted in misallocation of resources, again resulting in windfall profits for some importers.

PROGRAM DATA SHEET

1. Country Uganda

2. Program Title: Agricultural Nontraditional Export Promotion Program (ANEPP)

3. Program Number: 617-0113/617-T-601, Commodity Import Program (CIP)

   617-0113, Technical Assistance

4. A.I.D. Funding: $12.5 million, Policy Reform, CIP

   $1.5 million, Technical Assistance

5. Program Implementation:

   Authorization date: August 15, 1988

   Planned completion date: March 30, 1990

   Estimated completion date: December 31, 1990

6. Prgram Purpose: To increase Uganda's
nontraditional exports over
the long term.

7. Responsible USAID Mission Officials:

Mission Director: Richard Podol/Keith Sherper

Assistance Director: Fred E. Winch (1987-1990)

Deputy Director: Stephen Rynder (1990)

Project Officers: Edward Smith/Alan Lessik

GLOSSARY

A.I.D. - U.S. Agency for International Development

ANEPP - Agricultural Nontraditional Export Promotion Program

CIP - Commodity Import Program

EPADU - Export Policy Analysis and Development Unit

GDP - gross domestic product

forex - foreign exchange

IMF - International Monetary Fund

kibanda - the unofficial parallel foreign exchange market

PL 480 Program - U.S. agricultural commodity assistance program authorized and appropriated under Public Law 480

PMB - Produce Marketing Board

USAID/Kampala - U.S. Agency for International Development Mission to Uganda

Map of Uganda available on microfiche.

1. INTRODUCTION

Until the mid-1970s, Uganda had shown great potential for a diversified agricultural export base, but by 1987, coffee was generating almost all of the country's foreign exchange earnings. To help Uganda move away from almost total reliance on a single export commodity, the U.S. Agency for International Development (A.I.D.) obligated $14 million in 1988 to initiate the Uganda Agricultural Nontraditional Export Promotion Program (ANEPP). The ANEPP supported a set of policy initiatives to promote nontraditional agricultural exports and to provide incentives to the private sector to take the lead in diversifying exports and expanding Uganda's foreign exchange earnings. The ANEPP was to have the immediate benefit of raising Uganda's foreign exchange income and the longer term effect of demonstrating the efficiency of private-sector-led growth.

A four-person evaluation team visited Uganda in July-August 1990 to investigate and assess the impact of the ANEPP after 2 years of implementation. The purposes of the impact evaluation were to assess the impacts of the program to date, to draw lessons learned from the performance of the program, and to make recommendations that would assist the USAID Mission in its then-proposed extension of the ANEPP.

The evaluation team formulated hypotheses based on the program design document and sought appropriate data sources to field-test those hypotheses. A variety of information sources were used, including interviews with numerous private exporters, users of the Commodity Import Program (CIP), key Government of Uganda officials, beneficiaries of the technical assistance activity, Mission personnel, other donors, and a few farmers of nontraditional exports; USAID Mission program files; Government documents; and site visits. Time, and security considerations in certain areas of the country, did not permit the evaluation team to make extensive field visits to interview producers. Moreover, because the program was only 2 years into operation (one planting season in some areas and two in others), ascertaining impacts on producers was difficult. Consequently, the evaluation team focused its efforts on assessing the program's impacts on the direct beneficiaries exporters and importers and its impact on the economy at the macro level.{1}

The major obstacle constraining the evaluation was insufficient data. No systematic data-collection system was in place; quantitative data were particularly scarce and unreliable. Much of the information available from various government agencies was fragmentary and incomplete, and some data were contradictory. The Customs Department, which is responsible for recording exports, had not published a single report in more than 15 years. Consequently, trend data for actual growth in volume and value of nontraditional exports were not available. To assess the program's performance, the evaluation team pieced together mutually reinforcing information, cross-checking actual export data with the export-import license records to determine approximate trends, supplemented with perceptions of key actors. Insufficient data therefore meant a heavy reliance on impressionistic and anecdotal evidence.

{1} Appendix A of this report provides more detailed information on the decision-making and implementation processes involved in the ANEPP. Appendix B discussed more fully the technical assistance component of the program. Both can be obtained from the A.I.D. Library as CDIE Working Paper No. 148.

2. SETTING

2.1 General Description and History

The Republic of Uganda is a landlocked nation about the size of the state of Oregon with a population of about 16.9 million and abundant land and water resources. Historically, Uganda's people have been able to feed themselves and generate sufficient surplus to engage in lively commercial activities. Uganda's major food crops include bananas, plantain, beans, maize, cassava, sweet potatoes, groundnut, sorghum, and millet. The livestock industry yields milk, meat, horns, and hides and skins. Virtually all of these commodities are traded in local and regional markets within Uganda and in neighboring countries. Food crops dominate agriculture, with about 90 percent of the cultivated land devoted to them and the remaining 10 percent given to export crops. The major crops for export are coffee, tea, and cotton, as well as small amounts of cocoa, nuts, and spices. Formerly, small amounts of sugar and tobacco were also exported, but these crops are now used in local agroprocessing industries to meet domestic demand. All of these commodities, except coffee, are considered nontraditional exports.

Agriculture in Uganda accounts for more than two-thirds of the gross domestic product (GDP), 99 percent of export earnings, 80 percent of employment, and 60 percent of government revenues. Most farms, which average 2.5 hectares, are held by small-scale producers. Except for tea and sugar, which are grown on estates (with some outgrowers), all commodities for export and domestic consumption is produced on smallholdings.

Since the 1970s, Uganda has depended primarily on coffee exports for its foreign exchange earnings. More than 95 percent of Uganda's foreign exchange earnings accrue from coffee. Tax revenue from coffee exports is another important source of government income, although this source has declined during the past 6 years, from 46 percent of total tax revenue in 1983-1984 to 14 percent in 1989-1990. Uganda's reliance on coffee remains strong, making the economy vulnerable to changes in the international coffee market, as illustrated by the economic hardship that followed the 1989 fall in world coffee prices precipitated by the collapse of the International Coffee Agreement.

After Idi Amin seized power in January 1971, the Ugandan economy declined sharply. Real GDP dropped by about 20 percent during the ensuing years, and many of Uganda's most talented citizens either fled into voluntary exile (estimates from 500,000 to more than 1 million people) or were forced to leave, as, for example, in the mass expulsion of Asians in 1972. In early 1981, the Obote Government, with considerable assistance from the donor community, initiated a recovery program, which produced some positive results. However, with increased political and military instability beginning in 1984, expenditures escalated, inflation accelerated, the exchange rate became overvalued, and GDP declined in absolute terms. A military coup, followed by civil war, inflicted further destruction on the infrastructure and brought the economy to a virtual standstill.

2.2 The Nature of the Problem

When the Museveni Government came to power in January 1986, it inherited a country in disorder. Most of the major trunk roads had deteriorated, large proportions of the nation's vehicle fleet were either destroyed or stolen, most manufacturing plants had closed down, and productive agricultural areas had been ravaged. The new Government also inherited a considerable external debt burden.

Initially the Museveni Government reversed some of the Obote Government's recovery measures and pursued inflationary policies that exacerbated the economic crisis. The Government reversed itself within a year, however, when its analysts determined that those policies could not be sustained. In January 1987, the Government approached the donor community for financial support to arrest the economic decline and set the basis for sustained development. The International Monetary Fund (IMF) and the World Bank initiated sizable stabilization and structural adjustment programs. A.I.D., recognizing the need to reduce Uganda's extreme dependence on coffee, concentrated on supporting nontraditional export promotion and pursued an active policy dialogue with the Government and donors. At that time the economy faced a number of problems:

- The private sector was not permitted to legally export most commodities.

- The official exchange rate was grossly overvalued.

- The Government of Uganda was heavily involved in barter trade with the terms usually weighted against Uganda.

- The country faced severe shortages of foreign exchange, with the Bank of Uganda allocating only small amounts to the private sector. Imports financed by official foreign exchange, especially for consumer goods and productive inputs, were minimal.

- Inflation was very high, and the banking system was operating with negative real interest rates resulting in meager savings rates; consequently domestic resources were insufficient to finance the required private investment in productive capacity.

2.3 The Government of Uganda's Response

Beginning in 1987 the Government initiated a substantial series of policy reforms with broad support from the donor community. Many of the reforms related to changes in the trade and tax regimes that affected production incentives for both exports and import-competing industries. Critical reforms included the following:

- Adjusting the exchange rate. In May 1987 the Government of Uganda devalued the shilling by 70 percent, followed in mid-1988 by an IMF-supported policy of periodic devaluations: two in 1988, four in 1989, and five through August 1990. The intention was to merge the official and parallel (kibanda) foreign exchange rates sometime in 1991.

- Establishing simultaneous export/import licensing. In 1988, as an interim measure to encourage exports, A.I.D. and the Government agreed that the Government would provide exporters of nontraditional crops with an import license equal to the value of their exports. Any disadvantage suffered by exporters using the official exchange rate would be balanced by their ability to import scarce goods at the official rate, which could then be sold at a large profit at open market (i.e., parallel exchange rate) prices. This reform was the first official recognition that the exchange rate was overvalued and that exporters should have access to the parallel market rate. In effect, the Government of Uganda removed itself completely from regulating exchange rates for those participating in the dual-licensing program.

- Allowing foreign exchange retention account. In 1989, the Government instituted a foreign exchange retention account in response to shortcomings in the simultaneous export/import scheme (see Section 4.2.2). The option offered exporters several choices: They could hold the foreign exchange, use it to import goods, or sell it to the Government. Later (i.e., June 1990) they were able to sell their foreign exchange on the parallel market and thus receive the premium rate from that market.

- Reducing parastatal control of the export trade. From 1988 to mid-1990 the Government steadily abolished parastatal export monopolies on all crops, except cotton and coffee. The Government ended the Produce Marketing Board's (PMB) monopoly on the export of beans, sesame seed, maize, and groundnut. The PMB could still export those crops, but it would now have to compete with the private sector.

- Simplifying trade regulations and procedures. A.I.D. conditionality called for a reduction in the bureaucratic procedures and costs for both export and import licenses. To encourage exports, the Government, during the 1988-1990 period, moved to establish a streamlined, "one stop" window for acquiring licenses and reduced the number of forms and required approvals. By spring 1990, the Government had developed a system, which was to be inaugurated by September 1991, that would rely on 6-month certificates with no volume limits instead of the more cumbersome requirement for an export license for each shipment.

- Promoting agricultural exports. Uganda is a low-cost producer of a large variety of perishable fruits and vegetables that could be, and in some instances are being, exported by air freight to European markets. To encourage such exports, the 1990 PL 480 Agreement included the following conditions: two-thirds reduction in airport handling fee, elimination of royalties paid by private carriers to Uganda Airlines, a Government commitment to permit entry of additional air carriers, and agreement to encourage private firms to invest in cold storage facilities at the airport.

- Lifting restrictions on uses of foreign exchange (forex). With the elimination of the no-forex, an importer with access to foreign exchange held abroad was allowed to use that foreign exchange for imports. The importer did not have to show where the foreign exchange was kept or whether it was obtained legally. This policy effectively allowed flight capital and "informal" foreign exchange earnings to return to Uganda. In 1989 about $100 million of "no forex" imports were reported.

- Legitimizing the parallel foreign exchange market. The Government condoned the emergence of, and officially recognized, the parallel or kibanda market. In the kibanda market, foreign exchange had been traded freely at a rate much higher than the official rate. In July 1990 the Government moved all exports, except coffee, to the kibanda rate and legalized the operation of forex bureaus (private foreign exchange traders). By formalizing and expanding the kibanda market, the Government introduced effective market pricing and incentives likely to boost nontraditional exports and the level of private sector imports. This action represented the final step in the adoption of a market-determined exchange rate policy applicable to nontraditional exports. Only the coffee sector and selected other inflows (primarily petroleum products and donor aid) remained subject to exchange controls.

3. THE A.I.D. RESPONSE

The A.I.D. policy reform program was designed to increase nontraditional exports over the long term through a three-pronged approach of (1) improving export incentives, (2) providing imported inputs needed by producers and exporters of nontraditional commodities, and (3) building an analytical and monitoring capacity to continue the policy reform process and to provide assistance to private exporters. These efforts would demonstrate to the Government of Uganda that the private sector was critical to Uganda's development efforts.

3.1 Policy Reform and Policy Dialogue

To address its chronic balance of payments problems, the Government of Uganda established two major objectives in its policy reform program: (1) stabilizing the financial sector and (2) restructuring the productive sectors in order to encourage nontraditional exports. In the ANEPP, as well as other activities, A.I.D. macroeconomic policy reforms supported the IMF stabilization program, which was designed to restore price stability and to adjust the foreign exchange rate to a more market-oriented level. In addition, the A.I.D. policy reform terms under the ANEPP and the PL 480 Agreement included a number of specific measures designed to encourage private sector nontraditional exports. These included policy reforms and implementation procedures designed to

- Maintain the exchange rate policy agreed to in consultations between the Government of Uganda and the IMF.

- Streamline the export/import license application and approval process.

- Establish an A.I.D. CIP within the Bank of Uganda to finance imported agricultural inputs and other items for the production and marketing of nontraditional exports.

- Streamline the Government application and approval process for the nontraditional export program.

Throughout the course of program implementation, extensive policy dialogue took place at a relatively high level between the Government and A.I.D. on the appropriate macroeconomic and trade policy environment for accelerated private-sector-led growth.

3.2 The Commodity Import Program

With a severely depressed economy and a shortage of foreign exchange for imports, many exporters lacked key inputs vital to the success of their export efforts. The ANEPP provided a $12.5 million CIP component to finance imports of seed and fertilizer for increasing production, raw materials for manufacturing farm implements, and packing materials and bags for packaging export commodities. Initially the commodities eligible for CIP financing were limited and targeted to those that supported nontraditional exports. In 1989, the list of eligible items was expanded to include all commodities that could be shown to contribute to ANEPP's purpose. Nevertheless, many firms still had to do without imports or paid the much higher kibanda rate.

In exchange for local currency deposits from Ugandan private sector importers, the Bank of Uganda opened letters of credit in favor of the foreign suppliers at the official rate of exchange, which was then substantially below the parallel market rate. The procedure was the same as that used by the private sector to access foreign exchange under the Government's Open General Licensing System. The only addition was A.I.D.'s review and approval of each transaction to ensure that commodities to be imported were consistent with the objectives of the ANEPP. The local currency deposited by importers (i.e., the CIP counterpart) supported nontraditional exports by funding Government programs designed to improve marketing, training, research, and technical assistance.

3.3 The Technical Assistance Program

Although A.I.D.'s support of policy reforms and the funding of CIP inputs were important for addressing Uganda's immediate foreign exchange constraint, they could not address the country's longer term need for a capacity to monitor the progress of the trade sector in the economy and to improve Uganda's trade policy formulation. The USAID Mission also needed a means of monitoring the performance of the program.

To solve these problems, the A.I.D. technical assistance component provided support for three functions: trade policy analysis, export promotion, and ANEPP monitoring. A covenant stipulated the establishment of a unit for trade policy analysis and program monitoring, later named the Export Policy Analysis and Development Unit (EPADU), in the Ministry of Planning and Economic Development. The A.I.D. plan provided EPADU with long-term advisers, short-term consultants, equipment, training, and CIP local currency support. By the end of the program, EPADU was to have the capacity to analyze and develop policy options for the Government, and the Government was to have an expanded capability to provide direct support and services to exporters of nontraditional commodities.

3.4 The PL 480 Agreement

Subsequent to an overall paper on nontraditional exports, one of EPADU's earliest contributions was a position paper on constraints to air cargo shipment. The Unit also provided staff time to a governmentwide commission investigating air cargo constraints. EPADU's analysis made clear that the small numbers of flights and overregulation of air cargo arrangements through Uganda's major airport at Entebbe were impeding nontraditional exports. Consequently, two policy elements, listed below, were included as self-help measures in the 1990 PL 480 Agreement. (See also Case Study 1 for a recount of one exporter's experience with Uganda Airlines problems.)

- Permit at least two private air cargo carriers to operate at the airport; institute internationally competitive airport charges and fees to private carriers, and abolish royalties charged by the national carrier for nontraditional exports.

- Encourage at least two private firms to invest in and operate cold storage and warehouse facilities at or near Entebbe Airport.

4. THE IMPACT OF THE ANEPP

4.1 Macroeconomic Impacts

Uganda's policy reforms discussed in Sections 2.3 were influenced and supported by several key actors, including the IMF, the World Bank, A.I.D., other bilateral donors and, most critically, the Government of Uganda. Because many of the reforms were interrelated and mutually reinforcing, it is not possible to pinpoint the precise impact of the measures supported by a given donor. Further, the Government's reform efforts represent a process whereby one measure leads to or paves the way for follow-on reforms. Thus, the impact of one reform typically is overtaken by the effects of the next reform. Nonetheless, there is broad agreement that the Government's policy reform program was a resounding success. Two major macroeconomic impacts can be highlighted:

- The economy grew at more than 6 percent per year between 1987 and 1989.

- Inflation was brought under control, falling from more than 200 percent in mid-1988 to 26 percent by June 1990.

From its experiences since 1987, the Government learned two important lessons, which are shaping its policy agenda for the 1990s:

- An overvalued exchange rate creates imbalances. The exchange rate, therefore, must reflect market prices so that Uganda's exports can be competitive in world markets.

- The root cause of inflation is excessive government budget deficits, and without disciplined budgeting inflation will continue.

4.2 Impacts on Nontraditional Exports

The evaluation team used three data sources to determine the value and volume of nontraditional exports in order to assess the program's performance for the 1988-1990 period. The first was documented export information available from the Customs Department, the second was information provided by the Ministry of Commerce on export/import licenses granted, and the third was interviews with exporters.

4.2.1 Customs Export Data

The information from the Customs Department came from the Department's two main stations: the collection point at Entebbe (predominantly airfreight shipments) and customs inspection and certification office in Kampala (predominantly overland shipments). Together these two points provide information on at least 75 percent of nontraditional exports.

As indicated by data in Tables 1 and 2, the value of nontraditional exports more than doubled between 1988 and 1990. The total values of nontraditional exports recorded at Entebbe and certified at Kampala were about $5.5 million in 1988, and about $8.6 million in 1989. By May 1990, about $6 million in nontraditional exports had already been recorded, from which the evaluation team extrapolated a much sharper rate of growth for that year.

Table 1. Airfreight Exports
(value in US dollars)

Commodity	1988	1989	1990 (Jan.-July only)
Pineapples	494,473	252,106	89,466
Bananas	25,303	120,668	28,158
Fresh Fish	4,339	23,213	38,002
Fresh Ginger	1,850	72,547	6,256
Mixed Fruits	5,796	37,339	20,785
Processed Tea	0	0	132,875
Maize	0	0	95,139
Others	60,833	52,575	83,197
Total	592,594	558,448	493,878

Source: Department of Customs, Entebbe Office

Table 2. Overland Exports
(value in US dollars)

Commodity	1988	1989	1990 (Jan.-May only)
Hides & Skins	4,083,421	6,098,360	1,924,797
Dry Fish	6,000	34,333	12,657
Beans	0	427,941	32,127
Timber	330,031	168,180	86,777
Sesame	0	1,012,148	2,399,449
Maize	263,542	60,202	545,951
Cocoa Beans	0	0	307,151
Others	211,305	231,115	0
Total	4,894,299	8,032,279	5,308,909
Total (Entebbe and Kampala combined Tables 1 & 2)	5,486,893	8,590,727	5,802,787

Source: Department of Customs, Kampala Office

Increases in the value of overland agricultural exports shown in Table 2 were relatively easy to achieve because Ugandan farmers already grew those crops and thus were familiar with the farming requirements for producing them. Moreover, such commodities require simpler infrastructure, and the knowledge and technology for marketing them are already available. Both Tables 1 and 2 show fluctuations, which relate to marketing factors, including an underdeveloped infrastructure (e.g., inadequate transport, storage, and sorting and packing facilities), a fragile information system, and poorly formed business relationships. (See Case Study 2 for a brief description of one Ugandan businessman's experience with marketing nontraditional exports.)

4.2.2 Export License Data

The data discussed above support the trends that emerge from analyzing the other two sources of data. Table 3 presents data on export licenses granted by the Ministry of Commerce to exporters. The list shows the five commodities for which the most licenses were granted and the seven commodities with the highest aggregate face value of licenses.

Table 3. Selected License Data,
Number and Aggregate Face Value of Licenses

Commodity	1988	1989	1990{a}	Total	Value (US$m)
Fish	21	57	37	115	4.9
Beans	15	36	57	108	13.9
Hides & Skins	14	53	15	82	20.2
Timber	42	11	15	68	7.6
Tea	9	35	12	56	12.5
Sesame	3	14	21	38	7.0
Maize	10	3	11	24	10.4
	---	---	---	---	-----
Totals	114	209	168	491	$76.5

Source: Ministry of Commerce

{a} The data for 1990 only cover the period from January 1 to March 31.

The total value of nontraditional commodities (including a few not listed in Table 3) licensed for export by the Ministry of Commerce from June 1988 through March 31, 1990 is $88.1 million. The figure is more than four times greater than available Customs data suggest for the same period. Even if just one-fourth ($22.0 million) of the exports licensed during this period were actually made, nontraditional exports would have increased significantly during the first 2 years of the ANEPP.

The license data confirm the trends, described below, that emerge from the other two data sources: the Customs Department and interviews with exporters.

- Hides and skins are the leading nontraditional export commodities.

- The importance of sesame as an export commodity is growing rapidly.

- Foodstuffs (e.g., maize, beans, and smoked or fresh fish) are nontraditional exports of significant value.

- Perishable fruits and vegetables depend heavily on air cargo, and the loss of Uganda Airlines' air cargo capacity has adversely affected horticulture exports.

- The rate of growth of nontraditional exports appears to be accelerating. Requests for licenses in the first quarter of 1990 met or exceeded annual totals for the previous 2 years in most categories.

Interviews with exporters provided the third source of data for assessing the value of exports under the ANEPP. Eighteen well-established exporters of nontraditional crops indicated that they used about 70 percent of their licenses. In contrast, some more generalized traders (business people engaged in any kind of buying and selling, not primarily in the export business) took out licenses in anticipation of transactions that did not occur and thus did not use them.{2} Because a census of exporters and traders had not been completed at the time of the evaluation, the evaluation team could not ascertain what the proportion of exporters, with their higher license utilization rates, was to traders, who used licenses more speculatively. Best estimates made by government officials indicated that no more than 50 percent of the licenses issued were actually used.

{2} Many traders are speculating by taking out sesame export licenses. Traders are able to speculate in licenses because the fee is relatively low -- 1 percent of the CIF value of the export shipment -- and not payable until the exports are actually ready for shipment.

4.2.3 Private Sector Participation in Nontraditional Export Marketing

Although the export license data do not permit a definitive valuation of exports, they are indicative of the private sector's positive response to the greater opportunities available to them to engage in nontraditional exports. Indeed, the accelerated rate at which licenses are being taken out for most nontraditional exports indicates that the private sector is establishing new marketing channels. This is partially attributable to the declining role of state-owned enterprises in nontraditional exports during the 2 years of the ANEPP. Changes for three key state-owned enterprises included the following:

- Hides and Skins: the Uganda Leather and Tanning Industry monopolized rawhide exports until November 1988, but now private traders may export rawhides as well. The parastatal still controls exports of treated hides and skins, because it owns the only processing facility in the country.

- Tea: the Uganda Tea Authority monopolized exports until July 1990, when the first few private traders and cooperatives were allowed to enter the market.

- Timber: Uganda Hardwares Ltd. monopolized exports of timber until June 1989, thus permitting private sector involvement from this period until March 1990, when the Government suspended further timber export licenses until an assessment of forestry resources could be made.

Analyses of the Customs Department statistics, export license data, and interviews with exporters indicate the following:

- ANEPP-supported policy reforms, especially the simultaneous export/import scheme and the foreign exchange retention accounts, provided incentives to exporters to commence or accelerate purchases from producers of nontraditional export commodities, leading to an increase in the volume of such exports.

- The dramatic improvement in the main highways within Uganda during the past 3 years greatly facilitated the marketing of commodities within Uganda and of nontraditional exports to neighboring countries.

- Increases in exports flowed from increases in production and marketing of commodities familiar to Ugandan farmers and entrepreneurs and from simple infrastructure requirements. Most staple foods and other commodities licensed for export were sold to neighboring countries, were easily transportable to markets, and did not require cold storage facilities. Exporters, for example, transported hides, skins, and timber overland and then by sea to Europe and the Middle East using known and available technologies and marketing channels.

- Conversely, some nontraditional commodities, especially exotic fresh fruits and vegetables, did not experience the same dramatic growth in export volumes because of their special production and marketing requirements. These products must be attractively and appropriately packaged for the highly competitive markets of Europe and the Middle East, where these products are primarily sold. Moreover, perishable commodities require refrigeration from point of harvest to point of sale, as well as air cargo shipment. Thus the reduced cargo capacity of Uganda Airlines adversely affected exports of perishable commodities.

- Based on the business confidence gained from the Government's policy reforms, most exporters of nontraditional commodities are planning to increase their investments in such exports. Many exporters are investing in equipment they sorely need to increase the volume of their exports, and producers of nontraditional exports are investing in more permanent marketing arrangements, such as contract farming agreements with exporters. One group of private investors has already arranged to import fish processing and packaging equipment. The group has constructed a fish processing facility between the shores of Lake Victoria and Entebbe Airport so that fish caught by the company's contract fishermen can be processed, frozen, and packaged for quick air transport to markets in Europe. Most exporters of nontraditional commodities are making similar investments, albeit on a more modest scale, such as buying an additional truck or investing in supplies of new varieties of seeds for horticultural produce.

Finally, it should be emphasized that marketing arrangements for all nontraditional exports are fragile and not well established; most marketing has been conducted on an ad hoc basis. Lack of infrastructure and the absence of trust among most producers and their buying agents, exporters, and foreign buyers have constrained the growth of effective marketing systems associated with the ANEPP-supported policy reforms.

4.3 Impacts on Key Economic Actors

4.3.1 Benefit Incidence Among Target Groups

The design document identified five principal categories of beneficiaries: exporters of nontraditional commodities, CIP importers and their clientele, producers of nontraditional commodities, buying agents in the marketing process for various commodities, and users of imported commodities brought in under the import half of the dual-licensing scheme.

Exporters. Incomes of exporters reportedly have risen, although more from the import trading margin under the dual-licensing scheme than from export earnings, as anticipated in the program design. Exporters who were also CIP beneficiaries received a dual benefit (see below).

Importers and users of CIP commodities. The design document correctly anticipated that importers and users of CIP commodities would be the direct and most easily identifiable beneficiaries of the program. Inference on the magnitude of benefits for this group can be drawn for the period under review by examining the types and amounts of commodities directly related to production and marketing. Table 4 shows the commodities imported under the CIP portion of the ANEPP.

Table 4. CIP-Financed Commodities Imported Under the ANEPP, as of August 1, 1990

Commodity	Quantity	Value (dollars)	Percentage Share of CIP Imports
Jute Gunny Bags	5,530,400	2,830,980	57.7
Danier, Plastic Bags	525,200	300,000	6.1
Fishnets	66,300	512,668	10.4
Fertilizer	1,000 tons	441,500	9.0
Fruit Processing Spares	Assorted	192,893	3.9
Improved Seeds	Assorted	187,853	3.8
Fruit/Vegetable Cartons	206,000	180,440	3.7
Boat Engines	100	131,999	2.7
Panga Materials	Assorted	93,519	1.9
Carnation Cuttings	Assorted	22,060	0.5
Apple Pectin	1 ton	13,615	0.3
Total		4,907,528	100.0

In some instances, the quantities of commodities imported suggest a relatively narrow benefit incident. For example, few seeds and a negligible amount of fertilizer have actually been imported. Thus, the evidence that farmers, as secondary beneficiaries of CIP commodities, directly or indirectly benefited from CIP on any broad scale is scant and can only be imputed from the overall increases in marketed nontraditional exports. CIP importers benefited extensively because of the windfall realized by the foreign exchange rate differential (see Section 3.2). CIP importers who were also exporters benefited from obtaining the necessary packaging materials to permit them to realize income gains on their exports. Through CIP they received the bags they needed at a price that was at least 50 percent below the local market price, in contrast to other importers of bags who only had access to foreign exchange at the parallel market rate. Thus, the profit margin on each filled bag exported by CIP beneficiaries was higher than that of non-CIP beneficiaries. CIP beneficiaries could also resell their bags to other exporters at a handsome profit. (See Case Study 3 for a brief account of one export company's use of CIP financing and other marketing opportunities to expand and diversify its exports.)

To reduce the chances of windfall profits, A.I.D. decided on a case-by-case basis which CIP commodities could be imported and which firms would receive the imports. But that approach served to overburden the Mission and could not eliminate windfall profits, which were the direct result of the foreign exchange differential. Indeed, in 1989, the USAID Mission tried to persuade the Government to price the CIP imports at the kibanda rate, but the Bank of Uganda balked at an exchange rate adjustment for the program, which led to an impasse over CIP imports (see Section 5.1).

Nevertheless, CIP imports produced certain benefits with potential spread effects, as illustrated by two specific instances of the use of CIP commodities. The first case involves the fishing industry. The importer of fishing nets and outboard motors sold these products to fishermen, mainly near Lake Victoria. Traders report an increase in the number of fishing boats. Also, three new fish-packing plants have been established, and several small, informal processors have expanded their operations. Although the new plants reflect major donor capital investments and other private sector donor guarantee programs, they are premised on the greater and more reliable supply of fish generated in part by the imported nets and motors. In the second case, the firm imported steel for manufacturing 52,200 pangas. (A panga is an East African machete, which, along with the hoe, is one of the two major farm implements of small-scale producers.) Although the number of pangas produced is few, relative to the potential market of 2 million rural households, the import nevertheless is notable because it targeted smallholders.

Producers of nontraditional export commodities. It is too early to document whether producers of nontraditional export commodities will actually realize the benefits predicted during program design. Marketing systems, other than outgrower schemes (many of which predated the ANEPP), are so weak that it is unlikely that they are as yet sending consistent price signals to producers. Although for certain commodities (e.g., hides and skins, beans, and sesame) price incentives have affected the availability of marketed surplus, there is no evidence to indicate changes in the allocation of on-farm resources favoring production of nontraditional export commodities. Such changes, had they occurred, would suggest a sustained production in response to market signals. Instead, counterexamples, such as the crest and crash of maize prices, suggest that producers continue to rationally diversify their risk across a number of commodities.

Furthermore, anecdotal evidence indicates that nonprice factors influenced producer decisions. Civil disruption in the early 1980s caused a return to barter trade for certain communities. However, with the lessening of civil strife, especially in the case of sesame seed, traders are purchasing commodities for the export market, which has reintroduced cash to those rural areas. In the coffee sector the government parastatal has not paid producers on time for their product, causing many producers to minimize their investments in coffee production. However, private buyers of nontraditional commodities have been paying cash on the spot, thus providing an additional benefit to the producer. In a few instances, exporters or marketing cooperatives have been providing difficult-to-obtain inputs (such as soybean seed) to farmers, easing another nonprice constraint. Information on the benefit incidence of these factors is extremely spotty, however, and requires additional verification and quantification.

Others in the marketing and processing systems and end users of imports. Some of the buying agents, who are predominantly urban-based, have limited contracts with exporters; others are full-time employees. The marketing and processing system for nontraditional exports has not yet generated large amounts of employment. Some employment for guarding storage sites and, on a sporadic basis, for handling and transportation may have been generated in rural areas. However, the income gains from these cannot be considered significant nor widely distributed. Furthermore, many processing facilities lack adequate supplies or have recently been put on a competitive footing and are thus not operating at full capacity; some are actually reducing employment to realize efficiency gains.

The volume of imports (most of which were low-cost consumer items) under the dual-licensing scheme has been small, so benefits to end-users of imports under the export/import scheme has probably also been relatively low. Moreover, these benefits are indirect and difficult to trace.

4.3.2 Geographic Distribution of Benefits

The ANEPP shifted the locus of benefits away from the "fertile crescent" (Buganda, Busoga, Bugisu, and south of Kampala) to some of the less well-endowed regions, which, since the colonial era, have been the regions of the have-nots in Ugandan society. The reduced emphasis on coffee as a major export earner resulted in the emergence of such crops as sesame, beans, and hides and skins as significant nontraditional exports. Sesame is grown in the drier northern regions, livestock are raised in the west and the northeast, and beans are produced in the populous far south. The political significance of this unintended but evolving distribution of benefits should not be underestimated. Its importance is especially noteworthy if the development of infrastructure and market information systems for nontraditional exports are given the same emphasis as those of the potentially more valuable horticulture subsector located largely in the zones that have traditionally benefited from development efforts in Uganda.

5. FACTORS INFLUENCING PERFORMANCE AND IMPACT

The factors influencing ANEPP's performance and impact fall within two broad divisions: economic conditions, discussed in this section as macro and sectoral economic factors, and physical and institutional infrastructure. This section highlights only those believed to be critical to ANEPP's success and its limitations. Within the two broad divisions, all factors have been given equal weight.

5.1. Macro and Sectoral Economic Factors

The supply response of the productive sector. Policymakers consider the indigenous private sector the prime mover of the economic revival. As one high-level government official remarked, "they are on a roll." However, the private sector is rebuilding from a shattered base and, remembering the lessons of history, extremely cautious. Thus, the supply response of the productive sectors may be slower than policymakers would like, with the subsequent risk that "reform fatigue" will set in and the Government will backpedal on policy reform. Given this possibility, the balance of payments support has had a critical role in sustaining a high level of imports, providing the inputs and the time to allow the productive sectors to accelerate output.

Business confidence. A few initial indicators of business confidence are evident. A local banker reports that the ratio of term deposits (savings) to current deposits (checking) has doubled from 15 percent a year ago to 30 percent today. This development is in response to a series of reform measures to control inflation and liberalize control over interest rates. Because real interest rates are now positive, individuals feel comfortable holding savings deposits as a store of wealth. Also, in response to the generally improved business and security climate, a private sector residential and commercial construction boom is taking place in Uganda. The Government of Uganda has provided no foreign exchange for private sector building supplies and equipment, and informed officials report that such imports have been financed largely through the "no forex required" regime.

State-owned enterprises. Until early 1988, state-owned enterprises or parastatals dominated export and domestic marketing of the major agricultural commodities produced in Uganda. However, in 1988, the Government decided that it did not have the financial resources to sustain the marketing operations of inefficient state-owned enterprises and as part of its policy reform program, lifted the monopoly rights of these parastatals to market specified commodities. The private sector now competes with parastatals in marketing most export commodities.

This step, combined with an end to subsidization, has meant that for state-owned enterprises have been directed to specialized marketing niches, such as barter trade, and the provision of grading and quality control assessment services. The playing field has thus been leveled considerably for private sector operators. Evidence from the licensing and export data indicates that private entrepreneurs are moving strongly into marketing of commodities formerly monopolized by the state-owned enterprises.

A.I.D. exchange rate policy. The ANEPP CIP was obligated in August 1988. By January 1989 a $7.5 million Letter of Commitment had been established for the first tranche of funding. By June 1989 the CIP application process was moving along smoothly: A.I.D. had received 27 import applications and had approved transactions valued at approximately $2 million. However, the program soon hit an impasse over the exchange rate, and disbursements came to a halt. In the summer of 1989, the official exchange rate was about 200 Uganda shillings (U Sh) to the U.S. dollar, the parallel rate was more than U Sh 400 to $1, and the Government's Special Import Program used a rate of U Sh 400 to $1. The Bank of Uganda wanted the A.I.D. CIP to move at the U Sh 200 rate, whereas A.I.D., in order to eliminate windfall profits and encourage efficiency in resource allocation, wanted to use the U Sh 400 rate. Without an agreement on the exchange for CIP imports, disbursements could not be made. By March 1990 the official rate had been raised to almost U Sh 400, which was close to the parallel rate, and CIP disbursement began again. However, at least 9 months had passed with no CIP disbursements, which also meant that local currency had not been generated during the impasse. The limited amounts of local currency available were programmed to support EPADU's operating costs and the USAID Mission's Trust Fund, but the amounts were inadequate.

5.2 The Physical and Institutional Infrastructure

Transportation. The transport network~road, rail, and air provides the vital link between the farmer and the foreign consumer. During the last 3 years, most of the trunk roads have been rebuilt and work on the feeder roads has started. Areas of the country that were completely cut-off are now accessible, and areas that took days to reach can now be reached in a matter of hours. A similar effort has been launched to upgrade the railroads. While in 1986 only 264,000 tons were carried by rail, by 1989 the tonnage had increased to 912,000. At the time of the evaluation, the outdated and inadequate air cargo facilities at Entebbe Airport had still not been improved.

Marketing. The ANEPP helped increase opportunities for marketing bulk commodities, which were already being produced but not marketed effectively. However, some of the other nontraditional commodities, especially fresh fish, spices (such as ginger), and exotic fruits and vegetables, have special marketing requirements in terms of the kind of infrastructure, institutions, services, and skills and knowledge base needed to produce and market them effectively.

In Uganda, cold storage trucks for transport and cold storage warehouse facilities at collection and shipment points, both essential for proper handling of horticulture, are practically nonexistent. In addition, the system lacks dependable air cargo transport, attractive packaging materials, and appropriate quality control over production and packaging, all essential requirements for the successful penetration of the competitive European and Middle Eastern markets. Moreover, appropriate quality control requires close coordination between the exporter and buyer in overseas markets and between exporters and producers. In Uganda, the most successful exporters of fresh produce are farmers' organizations and business persons who exert more quality control over the production and packaging of their products (see Case Study 4).

Export Administration. Discussions with exporters revealed a distinct difference in the impact of the ANEPP-spurred reforms of export procedures for large-scale versus small-scale operators. Large-scale exporters indicated that although the process was still cumbersome, they were generally satisfied with the progress made in streamlining the system and reducing uncertainties. For them export controls and regulations and thus processing time had been greatly reduced and therefore transaction costs were lowered.

For firms with smaller value and volume, however, streamlining procedures for obtaining an export license does not seem to have taken full effect, although some progress has been made. One woman exporter stated that last year it took her 1 month from the date of application to the date she received her export license, but this year it only took her 2 weeks. Although the reduced time is an improvement, the process is still too complicated and takes too long to complete.

Policy dialogue. The policy dialogue between the Mission and the Government took place on a senior level and covered the major issues of the ANEPP (i.e., foreign exchange regime, reduction of bureaucratic controls on exports, greater involvement of the private sector in all phases of production of nontraditional export commodities, and marketing). (See Appendix A [CDIE Working Paper No. 148] for a more detailed discussion of the policy decision-making and implementation processes related to ANEPP.) The only government officials with detailed knowledge of the reform program were at the level of the Permanent Secretary or above (with the exception of one or two heads of departments within the Bank of Uganda and the Director of EPADU). This approach had its strengths and weaknesses. Although it lent a great deal of credibility to decisions reached, it probably also led to some slowness in policy implementation as second-and third-level officials took time to "get the message."

The Mission provided information and served as a sounding board and source of support for market-oriented government proposals. Recently, the Mission contributed an economic background paper, Trade Policy and Investment Requirements to Facilitate Export Diversification to the World Bank's Structural Adjustment Credit design. In fact, the Mission worked well with other donors, each of whom appears to have found a comfortable niche in the dialogue in Uganda.

A.I.D.'s positive policy dialogue was key to the realization of the export/import licensing scheme. However, equal credit for the successful policy dialogue must be given to the Government of Uganda, whose commitment to the policy reform process was critical, and to an increasingly articulate and organized private sector. EPADU has also made a significant contribution by strengthening the Government's ability to use empirical analysis to address policy problems. In fact, most trade policy analysis, whether for A.I.D. or for the Government, has largely shifted to this unit. This is not to say that EPADU's establishment and A.I.D.'s technical support for the Unit were free of certain implementation problems. In fact, the two functions that EPADU performs trade policy analysis and exporter advisory services fall within the scopes of two different ministries. While trade policy analysis is part of the Ministry of Planning and Economic Development's responsibilities, export advisory services are considered the responsibility of the Ministry of Commerce. The overlap has created some tension between the two ministries and within the Government. Fuller details on the implementation of ANEPP's companion technical assistance activity are provided in Appendix B, CDIE Working Paper No. 148)

Policy implementation. The A.I.D.-Government of Uganda policy dialogue was very effective for decisions that could be implemented by a few people. For example, the decision to establish a dual-licensing system was followed by effective implementation of that system. However, decisions requiring implementation by many civil servants at lower levels in the bureaucracy were less successfully executed for a variety of reasons detailed below.

- Sometimes lower level personnel were simply not informed of a change in policy or regulations. For example, customs agents on the border with Kenya were still insisting that exporters return their earned foreign exchange to the country in the form of goods, a requirement that the reforms had changed the year before.

- Sometimes the primary "losers" of a policy reform are those who must put the reform measure into practice, as is likely in the case of streamlining licensing procedures. Furthermore, the authority to grant official sanctions, such as licenses, often affords civil servants an opportunity to wield power, legitimately and sometimes even illegally. The Deputy Minister of Commerce stated that his most difficult challenge was reorienting the Ministry civil servants away from an enforcement mind-set toward a service orientation.

- Inadequate planning resulting in ambiguity about the actors involved and the sequence of steps to be followed also breaks down implementation. For example, regionalization of licenses, part of the streamlining measures, appears not to have occurred because the responsible district-level entity had not been identified and the series of steps transferring the function had never been outlined.

If the Mission's approach has had any drawbacks, it is its heavy dependence on a few key players, who on both the A.I.D. and Government of Uganda sides are vulnerable to replacement. USAID/Uganda might, for example, have provided more outside assistance to ensure that those in the lower ranks of Government would have the knowledge and commitment to act quickly on the reform measures.

Market relationships. In Uganda, the years of political turmoil and economic mismanagement have taken their toll on market relationships. Private businesses lack most of the basic conditions essential to any free market system: assured land-use rights for commercial properties; a system that recognizes and enforces contracts; established and accepted responsibilities between buyers and sellers; information on markets and prices; and liaison and contacts in foreign markets. As a result, most enterprises are highly diversified against risk, which results in many short-term, ad hoc, "one-shot" transactions. The years of unrest and turmoil have also reduced trust and confidence in the business environment, delaying the development of longer-term projects and business relationships. However, as noted in Section 4.2.3. and indicated by an apparent surge in demand for medium-term credit, the atmosphere for investment appears to be improving and entrepreneurs are willing to shoulder an ever-increasing burden of risk (see Case Study 5).

6. LESSONS LEARNED AND RECOMMENDATIONS

1. Policy conditionality is the critical factor in an effective reform program. The A.I.D. ANEPP Agreement and the PL 480 Agreement contained a number of conditions, covenants, and stipulations addressing exchange rate, monetary policy, export regulations and procedures, and incentives for promoting nontraditional exports. The modality made little difference -- the assistance could have been in the form of a loan or a grant, provided as a cash disbursement, a CIP, PL 480 commodities, or even project assistance. The key factor was the quality and appropriateness of the policy reforms, not the modality of A.I.D. assistance. In fact, the commodities financed had little to do with the implemented reforms. For example, PL 480 tallow for soap had little to do with reforms in air freight rates and air freight facilities, and CIP gunny bags had little bearing on changes in trade regulations and export incentives. In this policy reform program well-conceived policies were critical to success, not the modality of assistance.

2. Physical infrastructure is critical. The years of political and economic turmoil had greatly damaged Uganda's transport system, and many regions were isolated. But most of the railroads and trunk roads were rebuilt during the last 3 years, and work on the feeder roads is underway. Areas of the country that were completely cut off are now accessible. Areas that took days to reach can now be reached in a matter of hours. The road-and rail-rebuilding program was a major reason behind the growth in Uganda's nontraditional exports. In this activity, good infrastructure was as important as good policies.

3. Marketing systems and business infrastructure are crucial. The private sector proved able to take advantage of market opportunities to turn a quick, speculative profit. However, establishing a reliable market and the required business relationships takes a long time. Similarly, realizing the payoffs to necessary capital investments in order to build the foundation for sustainable increases in production, marketing, and exports requires time. Government policies have a direct bearing on market and business environments. In Uganda, the business environment has improved but still remains constrained by excessive government regulations and bureaucratic procedures, as well as by government parastatals that still dominate many crops and industries.

Businesses require a supportive market system and business infrastructure if they are to undertake longer term investment.

4. Success depends on choosing the best tactical approach to policy reform.

- The demonstration effect of policy changes. In Uganda, as in many developing countries, some government officials were not fully convinced at the program's inception of the value of free markets and private-sector-led growth. To convince these officials, the ANEPP used a demonstration approach to foreign exchange liberalization and to greater private sector participation in production, marketing, and exports. The ANEPP demonstrated the response of the private sector to higher foreign exchange rates and to being able to retain foreign exchange earnings. As a result of the demonstration, government officials were uniformly impressed with the performance of the private sector and are considering further policy reforms to expand its role.

- A focus on limited and manageable policy reform objectives. A.I.D. successfully supported policy reforms that greatly improved the prospects for nontraditional exports. As a tactical measure a focus on nontraditional exports made sense. In 1988 Uganda had a vast array of serious problems and A.I.D. had only limited resources. The Agency could not simultaneously tackle such problems as rebuilding the transport system, encouraging agricultural development, and reforming fiscal and monetary policy. By focusing on a limited but central sector, A.I.D. was able to successfully apply its expertise and use its resources. At the start of a program, it makes sense tactically to concentrate on a limited and manageable task that is achievable in a short time. Then, as a program develops, A.I.D. can move to other complementary reforms.

5. A sustained capacity for policy analysis supports the reform process. In Uganda, several key factors are in place that appear to facilitate market-oriented policy reform: (1) a critical mass of policy decision-makers, (2) open and honest debate on proposed measures, (3) a steady supply of empirical analysis supporting the proposed policy options, and (4) a supportive body politic. The country's history suggests that Uganda can reach its economic goals. Repudiation of the economic mismanagement and political repression of the Amin era can also make the reform task more acceptable to the majority of Ugandans.

A.I.D., through its support of EPADU, has made a significant contribution to ensuring a steady supply of empirical analysis for examining the policy options. However, the Unit is performing two functions: trade policy analysis and exporter advisory services. Although it functions within the Ministry of Planning and Economic Development, its activities also fall within the scope of the Ministry of Commerce. Furthermore, no provisions have been made for meeting the recurrent costs of the Unit following the end of the ANEPP. Successful policy reform requires a constant flow of empirical analysis. Therefore, provisions for government support of such a function should be made at the outset of the program, including decisions on the appropriate institutional location for the function and its continued operations.

6. Adequate baseline data-collection and monitoring are a must if the benefits of the reform program are to be fully measured. The ANEPP design document detailed an extensive, and probably impractical, data-collection, monitoring, and reporting plan. The original design of the technical assistance component suggested that these activities would fall largely within the purview of this component; however, the task was not fully translated into the terms of reference for either the technical assistance contract or EPADU. With the benefit of hindsight, such an extensive data-collection and monitoring plan was probably more than a new organization like EPADU could reasonably be expected to accomplish in its first year of operation. Moreover, the problems encountered by the Mission in supplying appropriate and timely technical assistance to EPADU compounded the problem.

The actual benefits of this program to the Government of Uganda and to the groups of beneficiaries identified in the design remain undocumented. The data on licensing, although indicative, are unreliable and have created inflated expectations of economic performance in the changed environment. Data collection and analysis for program monitoring and evaluation must be given attention equal to other aspects of program implementation. To better understand causality, evaluators must choose simple indicators that can be regularly sampled; the findings must then be supplemented by in-depth case studies.

7. Foreign exchange subsidies should be avoided. Throughout the program A.I.D. provided CIP resources at the official exchange rate, which was almost always much lower than the parallel rate. Importers were eager to receive a CIP allocation, since imports were scarce and the cheap foreign exchange was often available at half the free market rate. In 1988 some justification could be made for providing a subsidy to stimulate Uganda's moribund nontraditional export market. But now that exporters have become established and the parallel foreign exchange rate applies to most private sector imports and all nontraditional exports, it makes little sense to provide CIP importers with a windfall profit. A.I.D. should not provide cheap foreign exchange at below market rates. Any exceptions should be for very specific purposes and for a very limited time.

8. Administrative allocation of the CIP subsidy sets a bad example. The USAID Mission decided on a case-by-case basis which CIP commodities could be imported and which firms would receive the imports. Very few importers were lucky enough to receive subsidized CIP imports. Other firms did without imports or paid the higher kibanda rate. A.I.D. would not have to be involved in administrative allocations if the CIP dollars moved at the parallel foreign exchange rate rather than at the overvalued official rate.

A.I.D. should adequately inform the entire business community of the availability of A.I.D. resources. If A.I.D. really wants to promote private sector growth and if it really believes that governments "should let the market decide resource allocations," it should not price CIP imports too low and should not be involved in detailed CIP administration.